



# WEEKLY REPORT

## ARIZONA STATE RETIREMENT SYSTEM

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### ASRS Board

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*For the week ending Friday, March 14, 2003*

Weekly Report is published by the Arizona State Retirement System (ASRS) and provides a summary of legislation that pertains to the ASRS, as well as up-to-date ASRS news. We hope you find it useful. Included is a Quick Reference bill summary. If there are issues you'd like addressed, please let us know.

**\*\*\* Please distribute or make this report available to your employees. \*\*\***

### ASRS News:

The Arizona State Retirement System has been ranked as one of the Top Ten public retirement plans in the nation in a survey on the funding status of 123 plans from across the United States.

The ASRS was one of just 28 plans in the nation that has a positive ratio of assets to liabilities. It was the ninth strongest, with a ratio of 1.09, according to the 2003 Wilshire Report on State Retirement Systems, released this week. View the report at [www.wilshire.com](http://www.wilshire.com)

The next ASRS Board meeting is scheduled for March 21, 9:30 a.m., in the ASRS Tucson office, 7660 E. Broadway Blvd. The agenda includes public presentations on general matters of interest to all members, and a call to the public to address the board on any issue.

**This meeting is especially designed to encourage member and employer attendance.**

**Come meet your ASRS Board!**

ASRS Board Meetings are always open to the public and your attendance is encouraged. Board meetings, agendas and minutes can be found on the ASRS website.

### Next Week in the State Legislature:

- Tuesday, March 18 – Financial Institution & Insurance Committee, 1:30 p.m., HHR 3
  - SB 1255 ASRS; investment management; requirement

## ASRS Legislation NEWS

### **Rural Health Insurance Subsidy Update**

There has been a great deal of activity at the Legislature this week on the Rural Health Insurance Subsidy. At the beginning of the Session, two bills (SB 1036 and HB 2349) were introduced to extend the Subsidy for two additional years. As we reported recently, the House version of the Subsidy extension was amended in committee to lower the subsidy by 10% in 2004 and an additional 15% in 2005.

This week, HB 2349 was amended and passed on the Floor of the House. The amendment eliminates the extension of the Subsidy and requires all public employers to allow their retirees to join the health plan that they offer to their active employees. The cost to the retiree cannot exceed the total cost of the premium for active

employees. The amendment further provides that if a retiree was given the option of staying with the employer's plan at the time of retirement and opted not to stay in, that employer does not have to allow that member the option of joining now.

There was debate in the Committee of the Whole that the amended HB 2349 may cause health insurance costs to increase for active employees. Key Legislators are requesting that the League of Cities and Towns, the County Supervisors Association and the insurance providers determine what the fiscal impact may be. The sponsors intend to work through the concerns and issues as the amended bill makes its way through the Senate.

In the meantime, the Senate version of the Rural Health Insurance Subsidy Extension is still in its original form and is scheduled for a Senate Floor vote this week.

It is important to note that PacifiCare's offer to renew ASRS lines of coverage at the same price is contingent upon continuation and funding of the Rural Subsidy. Any changes to the existing subsidy could result in an increase in premiums for all participants in the ASRS insurance plans.

### **Will There Be Early Retirement Incentives?**

The ASRS has received many calls from members curious if the Legislature is discussing any early retirement incentives (windows) this year. There is no talk of instituting incentives for state employees, although some municipal employers are asking questions about it. The Legislature could still consider the issue of incentives this Session, but it is highly doubtful, due to the severity of the budget crisis and the fact that early retirement windows come with a cost.

### **Contribution Rate Increases and the Budget Crisis**

The Annual Valuation provided by the ASRS Board's actuary calculated a contribution rate of 5.2% for fiscal year 2004 for employers and employees. This is up from the current rate of 2%. Several groups have advocated that the rate increase be phased-in or that rate changes occur every year instead of every two years. While no action has been taken by the Legislature, there has been considerable interest expressed in some type of mitigation strategy. We will provide additional information as it becomes available.

### **Contributions Not Withheld**

HB 2023, Unpaid Contributions, was amended in the Senate Finance Committee to better clarify what is required to "verify past eligibility" for ASRS participation.

### **Terrorism and the Investment of State Funds**

The bills that deal with investing state funds in companies that have "ties to or activities with terrorist nations" have not moved in the past week. Although State Treasurer Petersen is continuing to advocate diligently to get those bills back on the fast-track, the most recent information we received indicates that Treasurer Petersen is working on amendments to the existing bills.

**Other legislation** affecting the ASRS is listed in the attached Quick Reference.

**Quick Reference**  
ASRS Related Legislation  
(Updated through Friday, March 14, 2003)

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<b>HB 2023 – ASRS; unpaid contributions</b> by Huppenthal <b>As Passed the House:</b> <ul style="list-style-type: none"> <li>Provides a member with 90 days to make payments after being notified that the employer has paid all amounts past due. If the member does not pay within 90 days, the member is responsible for accrued interest from that point on.</li> <li>Provides an employer with 90 days to make payments after being notified of the amount due. If the employer does not pay within 90 days, the employer is responsible for any accrued interest until the amount is paid in full.</li> <li>Requires an employee to provide verification of past employment and qualification for participation in ASRS.</li> <li>States that, beginning June 30, 2004, the employer is only responsible for making payments for any unpaid contributions and interest for service which occurred within 15 years of the date of notification.</li> <li>Allows a member to purchase service that was worked prior to the 15-year limit as “other public service.”</li> </ul>	Passed House 56-0-2. <b>Assigned:</b> Sen. FIN. <b>Status:</b> Sen. First Read 02/05/03. <u>Passed Sen. FIN DPA 8-0-1.</u> <u>Awaiting Sen. RULES.</u>	<b>As Passed the House:</b> None Expected.	<b>As Passed the House:</b> Actuarial letter received stating no cost.
<b>HB 2024 (see SB 1224) – ASRS; service purchase; calculation</b> by Huppenthal <b>As Passed the House:</b> Contains an emergency clause. Defines “current annual compensation” used in calculating the cost of purchasing service credit as the greater of: <ol style="list-style-type: none"> <li>The sum of the 12 months of compensation prior to the request.</li> <li>The sum of the 36 months of compensation prior to the request, divided by three.</li> <li>If the member has retired from an ASRS employer, the average monthly compensation used to calculate the member's last pension, times 12.</li> <li>The annualized compensation of the full pay period prior to the request.</li> <li>The annualized compensation of the partial year prior to the request, if the member has less than 12 months of service.</li> </ol>	Passed House 57-0-1. <b>Assigned:</b> Sen. FIN. <b>Status:</b> Sen. First Read 02/04/03. Awaiting Sen. FIN.	<b>As Passed the House:</b> None Expected.	<b>As Passed the House:</b> Actuarial letter received stating no cost.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<b>HB 2067 – ASRS; technical correction</b> by Huppenthal <b>As Introduced:</b> Makes a technical change to 38-742 “reinstatement.”	<b>Assigned:</b> Hse. RULES. <b>Status:</b> Awaiting Hse. RULES.	<b>As Introduced:</b> None Expected.	<b>As Introduced:</b> None.
<b>HB 2349 (see SB 1036) – public retirees; rural areas; insurance</b> by Konopnicki, Flake, Wagner, Arzberger, and Brown <b>As Passed the House:</b> Eliminates the extension of the rural health insurance subsidy. Requires all public employers to allow their retirees to join the health plan that they offer to their active employees. States that the cost to the retiree cannot exceed the total cost of the premium for active employees. Provides that if a retiree was given the option of staying with the employer’s plan at the time of retirement and opted not to stay in, that employer does not have to allow that member the option of joining now.	<b><u>Passed House 40-17-3.</u></b> <b>Assigned:</b> <u>Not yet assigned.</u> <b>Status:</b> <u>Awaiting Sen. First Read.</u>	<b>As Passed the House :</b> <u>Requested.</u>  <b>As Amended in Hse. GR:</b> None Expected.	<b>As Passed the House:</b> <u>Requested.</u>  As Amended in Hse. GR: Unfunded liability of \$31.1 million, an increase in the contribution rate for all employers and employees of 0.022% each, which is a combined cost of \$3.1 million more in contributions annually for 18 years (GF cost of \$352,927 per year).
<b>HB 2397 (see SB 1296) – public monies; investment protection</b> by Yarbrough, Martin, Huppenthal, and 4 <b>As Amended in Hse. WM (Strike Everything):</b> <ul style="list-style-type: none"> <li>Requires all asset managers that invest in equities on behalf of this state to submit an annual report to the entity on whose behalf they are investing.</li> <li>Requires affected state entities to provide an annual report to the governor, president of the senate, speaker of the house of representatives and the chairpersons of the house ways and means committee and the senate finance committee.</li> <li>Defines “federal designated terrorist sponsoring country or government” to mean those countries or governments that are designated as terrorist sponsoring by the U.S. Department of State, except Cuba.</li> <li>Only one company has been identified that could supply a portion of the required information to the asset managers for a fee.</li> </ul>	<b>Assigned:</b> Hse. WM. <b>Status:</b> Passed Hse. WM DPA/SE 7-4-0-1. Awaiting Hse. RULES.	<b>As Amended:</b> Requested.	<b>As Amended:</b> A potential increase in the contribution rate for all employers and employees of 0.64% each. Based on \$4 million increase in investment management fees, a 0.50% reduction (est. \$80 mil.) in investment return, and \$300,000 annually to purchase oversight services and prepare the reports. Potential litigation costs are not included.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<b>HB 2398</b> – ASRS; long-term disability increase by Carruthers, O'Halleran, Gullett <b>As Introduced:</b> Provides an increase to a member's LTD benefit equal to a benefit increase provided to a retired member of ASRS.	<b>Assigned:</b> Hse. GR, Hse. APPROP. <b>Status:</b> Awaiting Hse. GR. <b>DEAD (?)</b>	<b>As Introduced:</b> Not requested.	<b>As Introduced:</b> Unfunded liability of \$56.0 million, an increase in the LTD contribution rate for all employers and employees of 0.09% each, which is a combined cost of \$7.4 million more in contributions annually (GF cost of \$1.8 million per year).
<b>HB 2401</b> – deferred retirement option plan by Wagner, Quelland, Gray, and 6 <b>As Introduced:</b> Provides a deferred retirement option plan option to members of the ASRS, PSPRS, and CORP.	<b>Assigned:</b> Hse. GR, Hse. APPROP. <b>Status:</b> Awaiting Hse. GR. <b>DEAD (?)</b>	<b>As Introduced:</b> Not requested.	<b>As Introduced:</b> Unfunded liability of \$634.8 million, an increase in the contribution rate for all employers and employees of 0.45% each, which is a combined cost of \$31.5 million more in contributions annually for 17 years (GF cost of \$7.5 million per year).
<b>HB 2455</b> – ASRS; termination option by Huppenthal <b>As Passed the House :</b> Makes technical changes to the Modified DROP Program.	<b>Passed Hse. 57-0-3.</b> <b>Assigned:</b> <u>Not yet assigned.</u> <b>Status:</b> <u>Sen. First Read 03/1/03.</u>	<b>As Passed the House :</b> None Expected.	<b>As Passed the House :</b> None.
<b>HCR 2002</b> – impeachment; public retirement systems; forfeiture by Huppenthal <b>As Introduced:</b> Constitutional amendment to allow the senate to require an impeached official to forfeit their public retirement benefits from the office for which they were impeached.	<b>Assigned:</b> Hse. GR, Hse. JUD. <b>Status:</b> Awaiting Hse. GR. <b>DEAD (?)</b>	<b>As Introduced:</b> None Expected.	<b>As Introduced:</b> None.
<b>HCR 2029</b> – public monies; investment protection by Nichols, Verschoor <b>As Introduced:</b> Urges all asset managers and financial firms that invest or manage monies on behalf of the state to submit semiannual reports concerning companies engaged in business practices within a country designated by the United States Department of State as one that supports terrorist activities.	<b>Assigned:</b> Hse. GR, Hse. APPROP. <b>Status:</b> Passed Hse. GR DP 10-0-0-2. Awaiting Hse. APPROP.	<b>As Introduced:</b> Requested.	<b>As Introduced:</b> Not Requested. (If implemented, cost may be the same as for SB 1296 and HB 2397.)

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<b>SB 1036 (see HB 2349) – public retiree health insurance subsidy by Arzberger and 23</b> <b>As Introduced:</b> Extends the rural health insurance subsidy until 2004. Includes counties with a population less than 200,000 in the definition of “nonservice area.”	<b>Assigned:</b> Sen. FIN. <b>Status:</b> Passed Sen. FIN DPA 6-1-2. <u><b>Passed Sen. RULES PFC. Scheduled Sen. COW 03/13/03.</b></u>	<b>As Introduced:</b> None Expected.	<b>As Introduced:</b> Unfunded liability of \$18.8 million (one year extension), an increase in the contribution rate for all employers and employees of 0.014% each, which is a combined cost of \$1.9 million more in contributions annually for 18 years (GF cost of \$216,569 per year).
<b>SB 1037 – ASRS; surviving spouses; health insurance by Arzberger and 17.</b> <b>As Passed the Senate:</b> Provides a retiring member who selects a joint and survivor or period certain annuity the ability to select an optional health insurance subsidy that continues to the surviving spouse after the member’s death.	<u><b>Passed Senate 29-0-1.</b></u> <b>Assigned:</b> Not yet assigned. <b>Status:</b> <u><b>Awaiting Hse. First Read.</b></u>	<b>As Passed the Senate:</b> Requested.	<b>As Passed the Senate:</b> Actuarial letter received stating this bill is cost neutral.
<b>SB 1160 – ASRS; veterans; service credits by Arzberger</b> <b>As Introduced:</b> Requires the ASRS to recalculate the cost of military service purchased by members (active, retired, or deceased) prior to July 20, 1996, and refund any amounts, plus interest. Requires the ASRS to publish a notice of possible refund in 4 quarterly newsletters and 2 annual statements. Appropriates \$50,000 to the ASRS for making the recalculations.	<b>Assigned:</b> Sen. FIN, Sen. APPROP. <b>Status:</b> Awaiting Sen. FIN. <b>DEAD (?)</b>	<b>As Introduced:</b> Requested.	<b>As Introduced:</b> Unfunded liability of \$628,050, and increase in the contribution rate for all employers and employee of .00045%. However, because the contribution rate is rounded, there will be no actual contribution rate change and therefore no cost.
<b>SB 1221 – ASRS; study committee; health costs by Arzberger, Aguirre, Brotherton</b> <b>As Amended in Sen. FIN:</b> Creates a study committee on managing retiree health-care costs.	<b>Assigned:</b> Sen. FIN. <b>Status:</b> Passed Sen. FIN DPA 6-0-3. Passed Sen. RULES PFC. Awaiting Sen. COW.	<b>As Amended:</b> None Expected.	<b>As Amended:</b> None.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<b>SB 1224 (see HB 2024) – ASRS; service purchase; calculation by Martin, Reagan</b> <b>As Passed the Senate:</b> Contains an emergency clause. Defines “current annual compensation” used in calculating the cost of purchasing service credit as the greater of: <ol style="list-style-type: none"> <li>1. The sum of the 12 months of compensation prior to the request.</li> <li>2. The sum of the 36 months of compensation prior to the request, divided by three.</li> <li>3. If the member has retired from the ASRS, the average monthly compensation used to calculate the member’s last pension, times 12.</li> <li>4. The annualized compensation of the full pay period prior to the request.</li> <li>5. The annualized compensation of the partial year prior to the request, if the member has less than 12 months of service.</li> </ol>	Passed Senate 29-0-1. <b>Assigned:</b> Hse. GR, Hse. APPROP. <b>Status:</b> Awaiting Hse. GR.	As Passed the Senate: None Expected.	As Passed the Senate: None.
<b>SB 1225 – ASRS; investment management; requirement by Martin</b> <b>As Passed the Senate:</b> Amends ARS 38-718 to correct for the change in name of the organization responsible for awarding the chartered financial analyst designation from “institute of chartered financial analysts” to the “Association for Investment Management and Research.”	Passed Senate 30-0. <b>Assigned:</b> Hse. FII, Hse. GR. <b>Status:</b> <u>Scheduled</u> <u>Hse. FII 03/18/03.</u>	<b>As Passed the Senate:</b> None Expected.	As Passed the Senate: None.
<b>SB 1226 – ASRS; legal counsel by Martin</b> <b>As Introduced:</b> Exempts the ASRS from obtaining legal counsel only from the Attorney General.	<b>Assigned:</b> Sen. JUD, Sen. FIN. <b>Status:</b> Passed Sen. FIN DP 8-0-1. FAILED Sen. JUD 3-4-2. Scheduled, not heard Sen. JUD 02/26/03. <b>DEAD (?)</b>	<b>As Introduced:</b> None Expected.	As Introduced: None.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
<p><b>SB 1296 (see HB 2397) – public monies; investment protection</b>  <b>by Martin, Stump, Yarbrough</b>  <b>As Amended in Sen. FIN:</b> Asset managers and financial firms that invest or manage monies on behalf of the state are required to submit semiannual reports including a list of companies that have ties to terrorist countries, steps taken by these companies to ensure that the revenues it generates are not used by any government for terrorist activities, and other anti-terrorist provisions. “Activities in” is not defined. Only one company has been identified that could supply a portion of the required information to the asset managers for a fee.</p>	<p><b>Assigned:</b> Sen. FIN.  <b>Status:</b> Passed Sen. FIN DPA 7-1-1. Passed Sen. RULES PFCA. Held in Sen. Majority Caucus. Passed Sen. Minority Caucus 03/04/03.</p>	<p><b>As Amended:</b> Requested.</p>	<p><b>As Amended:</b> A potential increase in the contribution rate for all employers and employees of 0.64% each. Based on \$4 million increase in investment management fees, a 0.50% reduction (est. \$80 mil.) in investment return, and \$300,000 annually to purchase oversight services and prepare the reports. Potential litigation costs are not included.</p>



## LEGEND

AMEND C&P	Constitutional and Proper as Amended by the House Rules Committee	HB	House Bill
APPROP	Appropriations Committee	HCR	House Concurrent Resolution
ASRS	Arizona State Retirement System	Hse.	House of Representatives
C&P	Constitutional and Proper	JUD	Judiciary Committee
CORP	Corrections Officer Retirement Plan	LTD	Long Term Disability
COW	Committee of the Whole	PFC	Proper for Consideration
DP	Do Pass	PFCA	Proper for Consideration as Amended by the Senate Rules Committee
DPA	Do Pass as Amended	PSPRS	Public Safety Personnel Retirement System
EORP	Elected Officials' Retirement Plan	SB	Senate Bill
FII	Financial Institutions and Insurance Committee	S/E	Strike Everything Amendment
FIN	Finance Committee	Sen.	Senate
GF	General Fund	WM	Ways and Means Committee
GR	Government and Retirement Committee		

**The weekly legislative report is available on-line at the ASRS Web site:  
[www.asrs.state.az.us](http://www.asrs.state.az.us)**

The ASRS External Affairs Division and the Legislative Board Committee meet during the legislative session. The meetings take place in the 14th floor conference room of the ASRS office at 3300 N. Central Ave., Phoenix, and are open to the public. The purpose of these meetings is to review legislative activity on retirement bills from the previous week, and to review the scheduled bill activity in committees and on the floor for the upcoming week. Committee members ask technical and background questions, and review the latest information gathered from the Capitol and retirement groups from around the state. Meetings are teleconferenced to the ASRS Tucson office at 7660 E. Broadway Blvd., Tucson. Meeting agendas and minutes will be posted on the ASRS website. If you have questions relating to legislation, please contact Kelly Orrick at (602) 240-2027 or via email at [KellyO@asrs.state.az.us](mailto:KellyO@asrs.state.az.us).